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November 3, 2004

<u>HAND DELIVERED</u>

Mr. George N. Dorn, Jr.
Executive Director
Public Service Commission of South Carolina
Synergy Business Park, Saluda Building
101 Executive Center Drive
Columbia, SC 29210

Re: Cognigen Networks, Inc.
Case No. 2004-241-C
Our File No. 03496-0001

Dear Mr. Dorn:

Enclosed for filing please find the Testimony of Thomas S. Smith on behalf of Cognigen Networks, Inc. The company does not intend to use telemarketing in South Carolina; therefore, no sample scripts are included. Please date-stamp the extra copies of the testimony as proof of filing and return them with our courier.

If you have any questions, please have someone on your staff contact me.

Very truly yours,

ROBINSON, MCFADDEN & MOORE, P.C.

Bonnie D. Shealy

Bonnie D. Shealy

/bds
Enclosure

cc/enc: Patrick D. Crocker , Esquire (via email & U.S. Mail)
Mr. Thomas S. Smith (via email & U.S. Mail)
Ms. Beth Ronfeldt (via email)

171923 · DMS

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

DOCKET NO. 2004-241-C

IN THE MATTER OF:

THE APPLICATION OF)
COGNIGEN NETWORKS, INC.)
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY TO TRANSACT THE BUSINESS)
OF A RESELLER OF INTEREXCHANGE)
TELECOMMUNICATIONS SERVICES FOR)
APPROVAL OF ITS INITIAL TARIFF AND FOR)
MODIFIED ALTERNATIVE REGULATION)
)

TESTIMONY OF THOMAS S. SMITH

RETURN DATE: ________
SERVICE: DK D.Roberts

I. Introduction

Q. Please state your name and business address.

A. My name is Thomas S. Smith My address is 9800 Mount Pyramid Court, Suite 400, Englewood, Colorado 80112.

Q. By whom are you employed and in what capacity?

A. I am the CEO/President of Cognigen Networks, Inc. ("Cognigen")

Q. Please give a brief description of your background and experience in business and telecommunications.

A. Prior to becoming CEO and President of Cognigen Networks, Inc., I was a shareholder of the law firm Jones & Keller, P.C. I was also a partner of and special counsel to the law firm Dorsey & Whitney, LLP, and a partner with the law firms Smith McCullough, P.C. and Hopper and Kanouff, P.C. I graduated from Duke University and received my law degree from the University of North Carolina.

Q. What is the purpose of your testimony

A. The purpose of my testimony is to describe the nature of Cognigen's proposed service offerings within the State of South Carolina, and to demonstrate its financial, managerial, and technical ability to provide the telecommunications services for which authority is sought herein.

Q. Do you intend to incorporate by reference any documents into your testimony?

A. Yes. I wish to incorporate by reference the underlying Application filed in this proceeding and its associated exhibits.

II. The Business of Cognigen

Q. Has Cognigen registered to do business in South Carolina?

A. Yes. Cognigen is a corporation organized in the State of Colorado and has been authorized to transact business within the State of South Carolina. Copies of the qualifying documents are attached to the Application as Exhibits A and B.

Q. Please describe the services Cognigen intends to provide within the State of South Carolina.

A. Cognigen seeks authority to operate as a reseller of intrastate interexchange telecommunications services to the public on a statewide basis and to offer a full range of "1+" interexchange telecommunications services on a resale basis. Specifically, Cognigen seeks authority to provide MTS, out-WATS, in-WATS, and calling card services.

Q. What carrier will Cognigen utilize as its underlying carrier for services in South Carolina?

A. Cognigen will offer service to its subscribers using facilities of the communications networks of Sprint, Global Crossing, Qwest, other facilities-based IXCs, and the local exchange telephone companies.

Q. Is Cognigen currently authorized to provide intrastate telecommunications services in any other states?

A. Yes. Cognigen is authorized to provide telecommunications services in the following jurisdictions: Alabama, Arkansas, California, Colorado, District of Columbia, Florida, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Montana, Nebraska, Nevada (as Intandem Communications Corp.), New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Oregon, Rhode Island, South Dakota (as Intandem Communications Corp.), Texas, Utah, Vermont, Virginia, Washington, Wisconsin, and Wyoming.

Q. Does Cognigen intend to file a tariff with the Commission?

A. Yes, Cognigen will file a tariff similar to the proposed tariff filed along with Cognigen's application as Exhibit E in this docket. We believe that Cognigen's tariff will comport with all orders, rules, and regulations of the Commission.

Q. Will Cognigen comply with the Commission's orders regarding the resale of interexchange carrier services?

A. Yes. Cognigen will at all times provide and market interexchange carrier services in accordance with current Commission policies. In addition, Cognigen at all times provides interstate services in compliance with all FCC rules and regulations.

Q. Has Cognigen provided any intrastate telecommunications services within the State of South Carolina?

A. No it has not.

Q. What rates will Cognigen charge upon receipt of certification?

A. Cognigen will charge the tariffed rates approved by the Commission.

Q. How will Cognigen market services in South Carolina?

A. Cognigen will market services through its website.

Q. What Regulatory Treatment is Cognigen seeking in this Application?

A. Cognigen requests that all of its business service offerings be regulated pursuant to the procedures described and set out in Docket No. 95-661-C and as modified by Order No. 2001-997-C in docket No. 2000-407-C. It is Cognigen's intent in this request to have its business services regulated in the same manner as this Commission has permitted for by AT&T Communications of the Southern States. Specifically, Cognigen requests:

(a) removal of maximum rate tariff requirements for its business services, consumer card, operator service, and future private line, and customer network-type offerings;

(b) that tariff filings for these uncapped offerings are presumed valid upon filing. If the Commission institutes an investigation of a particular filing within seven days, the tariff filing will be suspended until further order of the Commission; and

(c) any relaxation in the reporting requirements that may be adopted for AT&T shall apply to Cognigen also.

We understand that the alternative regulation orders were modified by Order No. 2001-997 so that rate caps for operator-assisted calls where a consumer uses a local exchange carrier's calling card to complete calls from locations which have not selected that local exchange carrier as their toll provider. The order imposed a maximum cap of $1.75 for operator surcharges for such calls, and a maximum cap of $0.35 related to the flat per-minute rate associated with these calls.

III. <u>Managerial, Technical, and Financial Qualifications</u>

Q. Does Cognigen have sufficient managerial, technical, and financial resources and ability to provide the telecommunications services proposed in its Application?

A. Yes. Cognigen has sufficient technical, financial, and managerial resources and the ability to provide the telecommunications services for which authority has been sought herein. Cognigen's personnel represent a broad spectrum of business and technical disciplines, possessing many years of individual and aggregate telecommunications experience. My qualifications and experience are set forth on page 1 of this testimony.

Q. How does Cognigen handle customer service requests?

A. Cognigen operates a customer service department that can be reached conveniently by a toll free number, (877) 608-3769, 9:00 a.m. – 8:00 p.m. Eastern Time.

Q. Please describe the financial condition of Cognigen.

A. In support of Cognigen's financial ability to provide the services sought herein, Cognigen filed a balance sheet with the Commission as Exhibit D to the Application in this proceeding. The company's most recent financial statements, Form 10-KSB, are attached as Exhibit 1.

Q. How will residents of South Carolina benefit from Cognigen's services and presence in South Carolina?

A. Approval of Cognigen's Application will serve the public interest by creating greater competition in the interexchange marketplace. Approval will also provide consumers with a greater choice of billing options and long distance services for intrastate calls, promoting more efficient use of the underlying networks. Cognigen's participation in South Carolina's intrastate telecommunications market will also expand the tax base and revenue sources for the State.

Q. Why is the company seeking an exemption from maintaining records in South Carolina?

A. Cognigen requests a waiver of the requirements of 26 S.C. Reg. 103-610 that a carrier keep all records required by the Commission's rules and regulations within the State of South Carolina. Since the company's corporate offices are in Washington maintaining its books and records in South Carolina would be unduly burdensome. Cognigen will have a registered agent in South Carolina and will bear any costs associated with the Commission's inspection of its books and records.

Cognigen would also like an exemption for any policies that might require a carrier to maintain its financial records in conformance with the Uniform System of Accounts. As a competitive carrier, Cognigen maintains its books in accordance with Generally Accepted Accounting Principles; and therefore, does not possess the detailed cost data required by USOA.

Q. Does this conclude your testimony?

A. Yes. I would like to thank the Commission for this opportunity to provide information relevant to Cognigen's Application and am ready to provide any additional information that the Commission may need in making its decision.

10KSB 1 form_10ksb-063004.htm

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2004

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission file number 0-11730

COGNIGEN NETWORKS, INC.
(Name of small business issuer in its charter)

COLORADO	[redacted]
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6405 - 218th Street, S.W., Suite 305 Mountlake Terrace, Washington	98043
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number: (425) 329-2300

Securities registered under Section 12(b) of the Exchange Act:
None.

Securities registered under Section 12(g) of the Exchange Act:

Common Stock

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No __

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. _____

State issuer's revenue for its most recent fiscal year: $ 10,735,099

The aggregate market value of the voting and non-voting common equity held by non-affiliates at September 2, 2004, computed by reference to the last sale price of $0.17 per share on the OTC Bulletin Board, was $332,747.

The number of shares outstanding of each of the issuer's classes of common equity on September 2, 2004, was 8,753,972.

Documents Incorporated by Reference

The information required by Items 9 through 12 and Item 14 is incorporated by reference to our definitive proxy statement or definitive information statement that we plan to file in connection with our next Annual Meeting of Shareholders involving the election of directors. We plan to file the definitive proxy or definitive information statement with the Commission on or before October 28, 2004.

Transitional Small Business Disclosure Format Yes __ No |X|

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* The information required by Items 9 through 12 and Item 14 is incorporated by reference to our definitive proxy statement or definitive information statement that we plan to file in connection with our next Annual Meeting of Shareholders involving the election of directors. We plan to file the definitive proxy or definitive information statement with the Securities and Exchange Commission on or before October 28, 2004.

PART I

Forward-Looking Statements.

The discussion in this report contains forward-looking statements, including, without limitation, statements relating to our wholly owned subsidiary and us. Although we believe that the expectations reflected in the forward looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. The forward looking statements involve risks and uncertainties that affect our business, financial condition and results of operations, including without limitation, our possible inability to become certified as a reseller in all jurisdictions in which we apply, the possibility that our proprietary customer base will not grow as we expect, our possible inability to obtain additional financing, the possible lack of producing agent growth, our possible lack of revenue growth, our possible inability to add new products and services that generate increased sales, our possible lack of cash flows, our possible loss of key personnel, the possibility of telecommunication rate changes and technological changes and the possibility of increased competition. Many of these risks are beyond our control. We are not entitled to rely on the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, or Section 21E of the Securities Exchange Act of 1934, as amended, when making forward looking statements.

Item 1. Description of Business.

BUSINESS

We were incorporated in May 1983 in Colorado to engage in the cellular radio and broadcasting business. In June 1988, we changed our name to Silverthorne Production Company and commenced operations in the oil and gas industry. These operations were discontinued in 1989. From 1989 to 1999, we attempted to locate acquisition prospects and negotiate an acquisition. Our pursuit of an acquisition did not materialize until August 1999 when we acquired the assets of Inter-American Telecommunications Holding Corporation ("ITHC"). The acquisition was accounted for as a reverse acquisition. We changed our name to Cognigen Networks, Inc. on July 12, 2000.

We currently sell telecommunications and personal technology services through multifaceted sales and marketing organizations that utilize the Internet as a platform to provide customers and subscribers with a variety of telecommunications and technology based products and services. Through a network of independent agents, we have sold our own proprietary products and services or sold as agent third party or outside vendor products and services to customers and subscribers worldwide. Domestic and international long distance services make up a major portion of our sales with prepaid calling cards and paging, wireless communications, computers and Internet-based telecommunications products and other products in our sales mix. We sell our own proprietary products and services and , as agent, have contractual agreements with a variety of product and service vendors that provide us with a commission percentage of any sales made through one of our supported web sites. As agent, our web-based marketing division sells the products and services of industry leaders such as ATamp;T Wireless, Broadvox, CNM Network, Nextel, PowerNetGlobal, Sprint, Talk America, T-Mobil, Verizon and Z-tel. Our operations partially are dependent on our affiliations with third party providers of the products and services that our agents sell. These third party providers own the rights to sell these products and services. Our ability to offer these products and services is dependent on our agreements with providers being renewed and not terminated. The non-renewal or termination of a substantial number of these agreements would have a material adverse effect on our financial condition and results of operations. Our marketing engine is fueled by distribution channels through an Internet presence and through our corps of independent agents and affiliate groups each with their own customized Web site.

In the mid 1990's, our predecessor recognized the marketing potential of the Internet and formed what we believe was one of the first companies to create a marketing operation based exclusively on the Internet. The initial concept was to expand marketing potential by increasing the number of independent agents working within our corporate network while at the same time continuing to increase the number of products and services that these agents could provide to our worldwide customer base. To facilitate the manageable growth of this network and to be able to provide the agents with the support and marketing edge necessary for success, we developed and deployed the "self replicating" web page. This proprietary technology automatically creates a high content, personalized set of e-commerce web pages for each new agent, at the time the agent becomes a member of our network. Additionally, an Internet accessible "private site" is instantly created for the new agent. Each agent can view the agent's records, activity and account status on which the agent is working. The private site also contains customer detail status, recommended training sources, frequently asked questions and agent benefits. We also adopted a strategy of enabling each agent to sell telecommunications services and to recruit new agents. Generally, the original agent receives a sales commission override on sales generated by the agents thus recruited. Our commission structure and plan enables our agents to earn money without the necessity of developing a subordinate agent base. Our revenue is dependent on sales by our independent agents. The failure of these agents to achieve sustained sales will materially adversely affect our financial condition and results of operations.

We use self-replicating web page technology to run our web-based operations. If another technology becomes the preferred industry standard, we may be at a competitive disadvantage which, in turn, may require us to make changes at substantially increased costs. If our technology becomes obsolete at some time in the future and we are unable to change to an alternate technology in a cost effective manner, it could materially adversely affect our financial conditions and results of operations.

As of June 30, 2004, we had made advances of $454,149 to Intandem Communications Corp. (Intandem). On April 1, 2003, we and certain principals of Intandem entered into an agreement (Funding Agreement) pursuant to which we agreed to provide up to $448,093 in a series of loans to Intandem. Effective February 1, 2004, by mutual agreement of the principals of Intandem and us, the Funding Agreement was terminated and a separate agreement, the Termination of Funding Agreement and Settlement Agreement (Termination Agreement), was entered into.

The Termination Agreement provided that we would convert the notes receivable of $387,399 into 100% of the outstanding stock of Intandem in exchange for payments of $10,000 per month for eight months, assumption of up to approximately $45,000 in liabilities, cancellation of all employment contracts of the Intandem principals and cancellation of options to purchase our common stock. As of the date of the Termination Agreement, $414,149 had been funded under the Funding Agreement. Due to questions of recoverability of this amount and the remaining commitments under the Termination Agreement, a provision of $494,149 has been taken in the statement of operations. This provision represents the $414,149 funding through the date of the Termination Agreement plus an estimate of remaining commitments under the Termination Agreement which approximated $80,000 at the time. Approximately $60,000 remains in accrued liabilities as of June 30, 2004, related to estimated futures expenses relating to the Termination Agreement.

In conjunction with the Funding Agreement, a consultant was to be paid, under his consulting agreement with us, a commission that was being negotiated with us. The commission amount had not yet been determined when questions of recoverability arose and a provision to write off funded amounts was included in the statement of operations. It is anticipated that the majority of any commission paid will be from future Intandem cash flows, if any, in a combination of cash and some of our common stock, but this can not be assured or estimated at this time.

On May 12, 2004, after approval by the Board of Directors, we entered into a Stock for Stock Exchange Agreement with Jimmy L. Boswell, David G. Lucas, Reginald W. Einkauf and John D. Miller (collectively the Principals) pursuant to which the Principals agreed to exchange with us a total of 800,000 shares of our common stock owned by the Principals for all of the outstanding common stock of our wholly-owned subsidiary, Cognigen Switching Technologies, Inc. (CST), and warrants to purchase 200,000 shares of our common stock at $.3015 per share effective February 1, 2004. The closing occurred on May 21, 2004. At the closing CST entered into a Master Services Agreement (MSA) to provide us with telecommunications rating, billing, provisioning, customer care, commissioning and database management for a fee. The MSA is effective February 1, 2004, and goes for one year periods unless terminated by either party at the end of each period with a 30 day notice.

As part of the closing, CST entered into a new note with a then existing lender representing approximately $223,000 in debt. All options to purchase our common stock issued to CST employees were terminated except for the option to purchase 200,000 shares of our common stock owned by Jimmy L. Boswell which option expired in August 2004 and was exercisable at $3.68 per share.

At the time of the transaction, Jimmy L. Boswell was the president and a director of CST. David G. Lucas was the former chief financial officer and a director of CST. Reginald W. Einkauf and John D. Miller were former officers and directors of CST. Mr. Boswell and Mr. Lucas are former officers and directors of ours. We originally acquired CST in April 2000 when the Principals and another person sold all of the outstanding stock of CST to us for our common stock.

In conjunction with the Stock for Stock Exchange Agreement, goodwill with a net book value of $2,893,029 has been written off. With consideration of approximately $26,000, calculated using the Black Scholes method of calculation for the 200,000 warrants, goodwill of $2,893,029 and $168,448 in negative equity that was assumed by the Principals, and the 800,000 shares of our common stock that were repurchased from the Principals valued at $.31 per share or $248,000, we recorded a non cash loss of $2,502,583 on this transaction that is included in our statement of operations for the year ended June 30, 2004.

We had revenue from three customers that generated a total of approximately 25% and 32% of total revenue for the years ended June 30, 2004 and 2003, respectively

Competition

We compete with all of the companies for whom we sell products as an agent, with a number of companies that are network marketing telecommunication companies, and with all outside vendors who sell telecommunications and personal communications products directly and over the Internet.

Many of our current and potential competitors have longer operating histories and significantly greater selling and marketing, technical, financial, customer support, professional services and other resources than we do. As a result, these competitors are able to devote greater resources to the development, promotion, sale and support of their products. Moreover, our competitors may foresee the course of market developments more accurately than we do and could develop new technologies that compete with us or even render our services obsolete. We may not have sufficient resources to continue to make the investments or achieve the technological advances necessary to compete successfully with existing or new competitors. In addition, due to the rapidly evolving markets in which we compete, additional competitors with significant market presence and financial resources, including large telecommunications companies, may enter our markets, thereby further intensifying competition.

The markets in which we compete are characterized by increasing consolidation. We cannot predict how industry consolidation will affect our competitors and we may not be able to compete successfully in an increasingly consolidated industry. Additionally, because we may be dependent on strategic relationships with third parties in our industry, any consolidation involving these parties could reduce the demand for our products and otherwise harm our business prospects. Our competitors that have large market capitalizations or cash reserves are also better positioned than we are to acquire other companies, including our competitors, thereby obtaining new technologies or products that may displace our product lines. Any of these acquisitions could give our competitors a strategic advantage that would materially and adversely affect our business, financial condition and results of operations.

In addition, many of our competitors have much greater name recognition and have a more extensive customer base, broader customer relationships, significant financing programs, and broader product offerings than we do. These companies can adopt aggressive pricing policies and leverage their customer bases and broader product offerings to gain market share.

We expect that competitive pressures could result in price reductions, reduced margin and loss of market share, which could materially and adversely affect our business, financial condition and results of operations.

The industries in which our agents resell have severally experienced a high rate of customer turnover. The rate of customer turnover is attributable to several factors including, the non-use of customer contracts, affordability, customer care concerns and other competitive factors. Our strategy to address customer turnover may not be successful or the rate of customer turnover may be unacceptable. Price competition and other competitive factors could also cause increased customer turnover. A high rate of customer turnover could have a material adverse affect on our competitive position and results of operations.

Regulation

We are not currently subject to any governmental regulations as an Internet marketer of telecommunications and technology based products and services. We are authorized pursuant to authority of the Federal Communications Commission ("FCC") to operate as an intrastate and international resale carrier under Section 214 of the FCC rules. In addition, we are regulated by some state commissions as a reseller of intrastate long distance telecommunications services.

The markets for the products and services that we sell are characterized by a significant number of laws, regulations and standards, including those promulgated by the FCC. While we believe that our services comply with all current governmental laws, regulations and standards, we cannot assure you that we will be able to continue to do so in the future.

Our customers may also require, or we may otherwise deem it necessary or advisable, that we modify our services to address anticipated changes in the regulatory environment. Failure of our services to comply, or if we experience delays in compliance, with the various existing, anticipated, and evolving industry regulations and standards could adversely affect sales of our existing and future products. Moreover, the enactment of new laws or regulations, changes in the interpretation of existing laws or regulations or a reversal of the trend toward deregulation in the telecommunications industry, could have a material adverse affect on our business, financial condition and results of operations.
Employees

As of June 30, 2004, we had 12 employees, all of whom are full-time, based in our offices and facilities in Denver, Colorado and Seattle, Washington.

Item 2. Description of Property

We lease approximately 3,353 square feet of office space at 6405 218th Street, S.W., Suite 305, Mountlake Terrace, Washington 98043, pursuant to a lease that will terminate on July 31, 2007 (unless extended), and that currently requires monthly rental payments of $5,100. We also lease approximately 1,287 square feet of office space at 3495 Winton Place, Building E, Suite 270, Rochester, New York 14623, pursuant to a lease that will terminate on June 30, 2005, and that currently requires monthly payments of approximately $1,180, and lease Unit 506B at 301 Oxford Valley Road, Yardley, Pennsylvania pursuant to a lease that will terminate on April 30, 2005 and that requires monthly rental payments of approximately $2,317 per month and a final payment of $4,774. We will pay $6,478 by December 2004 to buyout the remaining term of the Rochester, New York facility and are attempting to sublet the Yardley, Pennsylvania facility, both of which we previously closed to operations.

Item 3. Legal Proceedings.

In September 2004, we filed a lawsuit against American Communications LLC (American Communications), David Stone (Stone) and Harry Gorlovesky (Gorlovesky) in the Circuit Court of the Twentieth Judicial Circuit in and for Dade County, Florida. In our complaint, we allege (1) that American Communications breached a settlement agreement by not making all of the $100,000 of payments required thereunder to payoff a promissory note and agreement for $300,000 that was assigned to and is owed to us and we demanded judgment of $334,119 on the promissory note and agreement plus interest from May 10, 2004: (2) that we are owed $81,000 for a dishonored check of $20,000 written as the last payment due under the settlement agreement and (3) that Stone and Gorlovesky guaranteed the promissory note and agreement and must pay the amount due under the promissory note and agreement plus our attorneys fees, cost and expenses in collecting on the promissory note and agreement.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of our security holders during our fourth fiscal quarter ended June 30, 2004.

PART II

Item 5. Market for Common Equity and Related Stockholders Matters.

Our common stock is quoted on the NASD OTC Bulletin Board under the symbol "CGNW." The following table sets forth, for the periods indicated, the high and low closing bid price quotations for the common stock as reported by the National Quotation Bureau, LLC. Such quotations reflect inter-dealer prices, but do not include retail mark-ups, markdowns or commissions and may not necessarily represent actual transactions.

	High Bid	Low Bid
Quarter ended June 30, 2004	$0.32	$0.20
Quarter ended March 31, 2004	0.34	0.22
Quarter ended December 31, 2003	0.35	0.20
Quarter ended September 30, 2003	0.54	0.32
Quarter ended June 30, 2003	0.51	0.36
Quarter ended March 31, 2003	0.51	0.36
Quarter ended December 31, 2002	0.66	0.19
Quarter ended September 30, 2002	0.43	0.32

As a result of our common stock not being quoted on a national exchange, an investor may find it more difficult to dispose of or to obtain accurate quotations as to the market value of our common stock. In addition, we are subject to a rule promulgated by the Securities and Exchange Commission. The rule provides that various sales practice requirements are imposed on broker/dealers who sell our common stock to persons other than established customers and accredited investors. For these types of transactions, the broker/dealer has to make a special suitability determination for the purchaser and have received the purchaser's written consent to the transactions prior to sale. Consequently, the rule may have an adverse effect on the ability of broker/dealers to sell our common stock, which may affect the ability of purchasers to sell our common stock in the open market.

Historically, our common stock has not traded in high volumes. An active or liquid trading market in our common stock may not develop or, if it does develop, it may not continue.

The market price for our common stock could be subject to significant fluctuations in response to variations in quarterly operating results, announcements of technological innovations or new products and services by us or our competitors, and our failure to achieve operating results consistent with securities analysts' projections of our performance.

The stock markets have experienced extreme price and volume fluctuations and volatility that have particularly affected the market price of many emerging growth and development stage companies. Such fluctuations and volatility have often been unrelated or disproportionate to the operating performance of such companies. Factors such as announcements of the introduction of new or enhanced services or related products by us or our competition, announcements of joint development efforts or corporate partnerships in the telecommunications market, market conditions in the technology, telecommunications and other emerging growth sectors, and rumors relating to us or our competitors may have a significant impact on the market price of our common stock.

As of September 2, 2004, there were approximately 1,320 holders of record of our common stock. The number of holders of record does not include holders whose securities are held in street name.

We have never paid and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We intend to retain any earnings for use in our business operations and in the expansion of our business. The following is a table with information regarding our equity compensation plans as of June 30, 2004:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	475,000	.33	150,000
Equity compensation plans not approved by security holders	2,225,000	2.06	-
Total	2,700,000	1.76	150,000

In May 2004, we granted warrants to purchase 200,000 shares of our common stock at an exercise price of $0.3015 per share to four people in connection with the Stock for Stock Exchange Agreement. The warrants vested immediately.

The warrants were issued in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act. The holders of these warrants had available to them full information concerning us and the certificates representing the warrants have a legend prohibiting the transfer of the shares of common stock underlying the warrants unless the transfers are registered under the Securities Act or the transfers are exempt from the registration requirements thereof. No underwriters were involved in this transaction.

Item 6. Management's Discussion and Analysis or Plan of Operation.

Overview

We are an Internet and relationship enabled marketer of long distance telephone and personal communications services. We earn revenue in two ways. First, we earn commissions revenue from a number of outside vendors whom we represent on our agent web sites and sell their products and services via contractual agreements. Second, we earn telecommunications revenue through sales of our own proprietary products and services through our agent web sites.

We made a major strategic transition in our business profile and delivery of products and services over the past fifteen months. In addition to being historically successful at representing and selling the services and products of outside vendors, we are now selling multiple branded products and services whereby the customer and account are owned by us. We refer to these products and services as our proprietary products and services. The most significant impact of this strategic transition is that by billing our owned customer accounts, we generated approximately five to seven times as much revenue compared to commission revenue we receive from vendors.

Through the acquisition of multiple state licenses, billing capability, and new distribution channels, we can grow revenue, maintain closer contact to our customers, and control bottom line retention and contribution to a greater degree.

See additional discussion of liquidity and capital resources below. Results of Operations

Summary Key Financial Data

	Fourth quarter 2004	Fiscal 2004	Fiscal 2003
Cash Flows From Operations Data:			
Cash flows from operating activities	142,249	227,938	113,085
Summary Statement of Operations Data:			
Income (loss) before taxes	66,646	(2,878,638)	401,407
Less: Provision for sale of CST	-	2,502,583	-
Provision for termination of Intandem Funding Agreement	-	494,149	-
Income before provisions	66,646	118,094	401,407

We had cash flows from operations for fiscal 2004 of $227,938 compared to $113,085 for fiscal 2003. This improvement began to be realized in our fourth fiscal quarter of 2004, during which cash flows from operations was $142,249, as many of our recent cost and expense reductions began to be reflected in our operating results. The cost and expense reductions were centered on improving our cash flows and included reducing personnel, reducing or eliminating unwarranted expenses and the sale of our subsidiary, CST, among other things. We have added over $50,000 per month to our ongoing cash flows from operations as a result of these cost and expense reductions.

Detailed Statement of Operations Data:

Revenue		
Marketing commissions	5,080,650	6,918,479
Telecommunications	5,636,291	3,988,343
Other	18,158	9,450
Total revenue	10,735,099	10,916,272
Operating expenses		
Commissions:		
Marketing	2,512,429	3,494,038
Telecommunications	729,312	409,055
Telecommunications	3,103,394	2,132,035
Selling, general and administrative	4,169,123	4,293,217
Depreciation and amortization	55,898	134,587
	10,570,156	10,462,932
Loss provision for sale of CST	2,502,583	--
Loss provision for termination of Intandem Funding	494,149	--
Total operating expenses	13,566,888	10,462,932
Income (loss) from operations	(2,831,789)	453,340
Interest expense	(46,849)	(51,933)
Income (loss) before income taxes	(2,878,638)	401,407

Year Ended June 30, 2004 Compared to Year Ended June 30, 2003

Total revenue for fiscal 2004 was $10,735,099 compared to $10,916,272 for 2003. Marketing commissions revenue was $5,080,650 for 2004 compared to $6,918,479 for the prior year. Telecommunications revenue was $5,636,291 for 2004 as compared to $3,988,343 for the prior year.

Marketing commissions revenue for 2004 decreased $1,837,829 from that of 2003 or 27%. This decrease reflects a trend that began in our first fiscal quarter of 2003 and continued through part of the fourth fiscal quarter of 2004. We believe this trend was in large part a result of the lack of new product opportunities for our agents, inadequate customer service and partly from our strategic transition previously explained. During the second half of fiscal 2004, we entered into agreements to market additional and new products that were and remain very consumer desirable such as voice over internet protocol (VoIP) telephone services, cell phones, satellite television and bundled services for local and long distance service. We have also emphasized customer service this year reducing our response time to customer inquiries and order verification. Marketing additional and new products and better customer service has helped stabilize marketing commissions revenue.

Telecommunications revenue increased $1,647,948 for 2004 compared to 2003, or 41%. This increase resulted from approximately $2,500,000 of telecommunications revenue from new proprietary products and services being sold offset by a decrease of approximately $900,000 of telecommunications revenue from proprietary products and services that were being sold in the prior year. Our proprietary customer base increased approximately 15,000 to approximately 26,000 proprietary customers currently. A bigger portion of those proprietary customers are small business or dedicated customers who have entered into service contracts with us for usually one to two year periods and who represent higher months usage than most residential customers. Part of the decrease in proprietary products and services resulted from our sale of CST to its principals effective February 1, 2004. As part of the sale, CST maintained approximately $70,000 in monthly telecommunications revenue, approximately 50% from a conferencing product it switches through its facilities based switch and another 50% from a customer base which receives no new customers but is primarily a billing service based customer.

Marketing commissions expense decreased from $3,494,038 for 2003 to $2,512,429 for 2004, a decrease of 28%. This decrease correlates to the decrease in marketing commissions revenue explained above. Had the payments to a shareholder described in Note 8 (Stockholders Redemption Agreement) to the Consolidated Financial Statements been recorded as marketing commissions expense instead of a reduction of deferred commissions payable on the balance sheet, marketing commissions expense would have been higher by $526,644. We do not anticipate recording these payments as marketing commissions expense until sometime in 2006.

Telecommunications expense increased from $409,055 for 2003 to $729,312 for 2004 or 78%. This increase is primarily a result of our strategic transition to sell more proprietary products and services. These products and services include those generated through our Intandem created relations which are paid at higher commission rates than those paid on marketing commissions revenue.

Telecommunications operating expenses, primarily carrier costs, increased $971,359 for 2004 compared to 2003 or 46%, from $2,132,035 to $3,103,394. This increase is consistent with the increase in corresponding revenue which increased 41% for the same time period. Telecommunications operating expenses as a percentage of telecommunications revenue increased from 54% in 2003 to 55% in 2004.

Selling, general and administrative expenses decreased $124,094 for 2004 compared to 2003, or 3%. This decrease is largely attributed to decreases in consulting, legal and accounting fees of $383,409, travel expenses of $93,915, server and state taxes of $109,668, offset in part by increases to expenses related to the increase in proprietary revenues such as credit card, credit check and licensing fees of $210,207. Other increases included fees paid to CST for customer service and switching services, among other things, since February

1, 2003 of $219,718. Another decrease included salaries which decreased approximately $265,000 for the sale of CST but increased $158,535 for personnel who were working in our Rochester facility but which facility was shut down during 2004. We have benefited from decreases to selling, general and administrative from the CST transaction of approximately $25,000 to $30,000 per month and from other cost and expense reductions such as reducing unwarranted expenses and salaries, among other things, of in excess of $30,000 per month on an ongoing basis.

The provision for sale of CST of $2,502,583 relates to the Stock for Stock Exchange Agreement or sale of CST to its principals. Goodwill with a net book value of $2,893,029 was written off. The goodwill was recorded in 2000 when we acquired CST. With consideration of approximately $26,000, calculated using the Black Scholes method of calculation for the 200,000 warrants awarded, goodwill of $2,893,029 and $168,448 in negative equity that was assumed by the principals, and the 800,000 shares of our common stock that was repurchased from the principals valued at $.31 per share, we recorded a loss of $2,502,583 on this transaction.

The provision for termination of Intandem Funding of $494,149 results from a funded amount of $414,149 funding through the date of the Termination Agreement plus an estimate of remaining commitments under the Termination Agreement which approximated $80,000 at the time.

Depreciation and amortization decreased $78,689 from $134,587 for 2003 to $55,898 for 2004. This decrease was a result of the CST sale as previously described and to assets becoming fully depreciated.

Interest expense for 2004 of $46,849 was lower by $5,084 from that of 2003. This resulted from lower average outstanding debt or receivables financing arrangement levels. Seasonality and Economic Conditions

Our revenue and sales are not affected by seasons of the year. Inflation

We do not believe that inflation had a material impact on our results of operations for the fiscal years ended June 30, 2004 or 2003.

Liquidity and Capital Resources

We have historically funded our operations primarily from sales of securities and operations. At June 30, 2004 we had cash and cash equivalents of $213,611 and negative working capital of $1,211,557. Cash provided by operations during the year ended June 30, 2004 was $227,938.

Cash used in investing activities of $177,942 included advances of $241,397 under the terms of the Funding Agreement with Intandem. Cash used in financing activities of $249,377 primarily included net proceeds from the receivables financing agreement of $308,100 offset by the payment of deferred commissions of $526,644 and payment on a note payable of $50,000.

We have a balance outstanding under a receivables financing arrangement as of June 30, 2004 of $308,100. This represents the amount of marketing commissions receivables that have been sold under an Accounts Receivable Purchase Agreement (Receivables Purchase Agreement) with a bank. The Receivables Purchase Agreement provides for up to $1,250,000 in marketing commissions receivable to be used as collateral for advances under the Receivables Purchase Agreement of which 65% of the marketing commissions receivable balances are available in cash advances to the Company. Interest charges are 1.3% per month on the marketing commissions receivable balances used as collateral. After one year, the Receivables Purchase Agreement is from year to year unless terminated in writing by either party. The Company is in compliance with the terms and conditions of the Receivables Purchase Agreement.

Cash flows generated from operations and from our receivables financing arrangement were sufficient to meet our working capital requirements for the year ended June 30, 2004, but may not be sufficient to meet our working capital requirements for the foreseeable future or provide for expansion opportunities. Currently, we are slowly reducing our average balances outstanding under our receivables financing arrangement. We have reduced costs and expenses by reducing personnel, reducing or eliminating unwarranted expenses and have sold CST, our former subsidiary, which all combined have increased our cash flows in excess of $50,000 per month. We are looking at various financing and equity opportunities to provide additional working capital or for expansion opportunities and continue to identify costs and expenses that can be reduced or eliminated. There can be no assurance we will be able to secure additional debt or equity financing, that we will be able to reduce or eliminate more costs and expenses or that cash flows from operations will produce adequate cash flow to enable us to meet all of our future obligations or to be able to expand. However, we believe that we will be successful in producing sufficient cash flows from all collective sources to continue for at least the next twelve months.

Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our results of operations. In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Our critical accounting policies are as follows:

- marketing commissions receivable;
- goodwill;
- valuation of long-lived assets;
- commissions payable; and
- revenue recognition.

Marketing Commissions Receivable

Marketing commissions receivable represent amounts due from outside vendors for telecommunication services used by subscribers. Typically outside vendors pay commissions due to us forty five to sixty days after the usage month-end.

An allowance for doubtful accounts of $154,357 as of June 30, 2004, has been established by us to provide for potential uncollectible accounts and is deemed to be adequate by management based on historical results.

Goodwill

The excess of the purchase price over net assets acquired by the Company from unrelated third parties is recorded as goodwill. Goodwill resulted from the acquisition of CST in 2000. In July 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) Nos. 141 and 142, "Business Combinations" and "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under the guidance of SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair value base test. There was no goodwill recorded as of June 30, 2004 as it was written off in the transaction related to the sale of CST. See Note 7 to the Consolidated Financial Statements.

Valuation of Long-Lived Assets

We assess valuation of long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". We periodically evaluate the carrying value of long-lived assets to be held and used, including goodwill and other intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

Commissions Payable

Commissions payable represent amounts due to agents for commissions related to the usage for which we are due marketing commissions revenue from our outside vendors and commissions payable on sales of telecommunications revenue. It is our policy to pay commissions to our agents only after receiving commissions revenue due from our outside vendors. This policy results in approximately two months commission payable on outside vendor commission revenue at any point in time. Commissions are paid on telecommunications revenue usually within one to two months of generating the telecommunications revenue.

Revenue Recognition

Marketing Commissions

Marketing commissions revenue from the sale of long-distance telephone, personal communication devices and marketing products is recognized at the time of sale.

Telecommunications

Telecommunications calling card and pin revenue is recorded when the calling cards and pins are shipped. Our policy is to delay shipment of calling cards and pins for a two-week period after receipt of cash to allow for processing. This delay results in deferred revenue, which is recorded as a liability until the calling cards are shipped. Calling card revenue includes amounts paid for the cost of the telecommunications services provided by third-party carriers.

Telecommunications long distance phone services revenue is recorded when services are rendered.

Telecommunications prepaid long distance phone service is initially recorded as deferred revenue and is recognized as the prepaid minutes are used by the customer.

Recently Issued Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (FASB) issued revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits". The revision requires additional annual disclosures related to information describing the types of plan assets, investment strategy, measurement dates, plan obligations and cash flows. The revision also required new quarterly disclosures detailing the components of net periodic benefit cost recognized during the interim period. The adoption of this Standard has not had a material effect on our financial statements.

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The objective of this Issue is to provide guidance for identifying impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. The accounting provisions of EITF 03-1 are effective for all reporting periods beginning after June 15, 2004, while the disclosure requirements are effective only for annual periods ending after June 15, 2004. We have evaluated the impact of the adoption of EITF 03-1 and do not believe the impact will be significant to our overall results of operations or financial position.

Forward Looking Statements

Certain of the information discussed herein, and in particular in this section entitled "Management's Discussion and Analysis or Plan of Operations," contains forward looking statements that involve risks and uncertainties that might adversely affect our operating results in the future in a material way. Such risks and uncertainties include, without limitation, our possible inability to become certified as a reseller in all jurisdictions in which we apply, possibility that our proprietary customer base will not grow as we expect, our possible inability to obtain additional financing, the possible lack of producing agent growth, our possible lack of revenue growth, our possible inability to add new products that generate sales, our lack of cash flows, our possible loss of key personnel, the possibility of telecommunication rate changes and technological changes and the possibility of increased competition. Many of these risks are beyond our control. We are not entitled to rely on the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, or Section 21E of the Securities Exchange Act of 1934 as amended, when making forward-looking statements.

We are an Internet and relationship enabled marketer of long distance telephone and personal communications services. We earn revenue in two ways. First, we earn commissions revenue from a number of outside vendors whom we represent on our agent web sites and sell their products and services via contractual agreements. Second, we earn telecommunications revenue through sales of our own proprietary products and services through our agent web sites..

Item 7. Financial Statements.

Reference is made to the financial statements, the reports thereon and the notes thereto included as a part of this Annual Report on Form 10-KSB, which financial statements, reports and notes are incorporated herein by reference.

COGNIGEN NETWORKS, INC.

Consolidated Financial Statements
and
Independent Auditors' Report
June 30, 2004 and 2003

COGNIGEN NETWORKS, INC.

Table of Contents

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Cognigen Networks, Inc.
Mountlake Terrace, Washington

We have audited the accompanying consolidated balance sheet of Cognigen Networks, Inc. and subsidiary as of June 30, 2004, and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for the years ended June 30, 2004 and 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cognigen Networks, Inc. and subsidiary as of June 30, 2004, and the results of their operations and their cash flows for the years ended June 30, 2004 and 2003 in conformity with U.S. generally accepted accounting principles.

/s/Ehrhardt Keefe Steiner amp; Hottman PC

Ehrhardt Keefe Steiner amp; Hottman PC

September 2, 2004
Denver, Colorado

Consolidated Balance Sheet
June 30, 2004

Assets

Current assets	
Cash	$ 213,611
Accounts receivable, net of allowance of $258,107	481,092
Marketing commissions receivable, net of allowance of $154,357	773,168
Inventory	15,543
Other current assets	52,210
Total current assets	1,535,624
Non-current assets	
Property and equipment, net	16,847
Notes receivable, net of allowance of $20,000	--
Deposits and other assets	60,424
Total non-current assets	77,271
Total assets	$ 1,612,895

Liabilities and Stockholders' Equity (Deficit)

Current liabilities	
Accounts payable	$ 670,416
Accrued liabilities	444,098
Commissions payable	811,729
Current portion of deferred commissions	511,200
Receivables financing arrangement	308,100
Other current liabilities	1,638
Total current liabilities	2,747,181
Non-current liabilities	
Deferred commissions	237,346
Accrued dividends and other	68,391
Total non-current liabilities	305,737
Total liabilities	3,052,918

Commitments and contingencies	
Stockholders' equity (deficit)	
8% Convertible Series A preferred stock, no par value, 20,000,000 shares authorized, 500,000 shares issued and outstanding, $1.00 per share liquidation preference	450,000
Common stock $.001 par value, 300,000,000 shares authorized; 8,753,972 shares issued and outstanding	8,754
Additional paid-in capital	11,954,331
Accumulated deficit	(13,853,108)
Total stockholders' equity (deficit)	(1,440,023)
Total liabilities and stockholders' equity (deficit)	$ 1,612,895

See notes to consolidated financial statements

COGNIGEN NETWORKS, INC.

Consolidated Statements of Operations

	For the Years Ended June 30, 2004	2003
Revenue		
Marketing commissions	$ 5,080,650	$ 6,918,479
Telecommunications	5,636,291	3,988,343
Other	18,158	9,450
Total revenue	10,735,099	10,916,272
Operating expenses		
Commissions:		
Marketing	2,512,429	3,494,038
Telecommunications	729,312	409,055
Telecommunications	3,103,394	2,132,035
Selling, general and administrative	4,169,123	4,293,217
Depreciation and amortization	55,898	134,587
	10,570,156	10,462,932
Loss provision for sale of CST	2,502,583	--

Loss provision for termination of Intandem Funding Agreement	494,149	--
Total operating expenses	13,566,888	10,462,932
Income (loss) from operations	(2,831,789)	453,340
Interest expense	(46,849)	(51,933)
Income (loss) before income taxes	(2,878,638)	401,407
Income taxes	--	--
Net income (loss)	(2,878,638)	401,407
Preferred dividends	(40,000)	(28,225)
Net income (loss) attributable to common shareholders	$ (2,918,638)	$ 373,182
Income (loss) per common share - basic	$ (0.32)	$ 0.04
Weighted average number of common shares outstanding - basic	9,223,917	9,266,307
Income (loss) per common share - diluted	$ (0.32)	$ 0.04
Weighted average number of common shares outstanding - diluted	9,223,917	9,267,760

See notes to consolidated financial statements

COGNIGEN NETWORKS, INC.

Consolidated Statement of Changes in Stockholders' Equity (Deficit)
For the Years Ended June 30, 2004 and 2003

	Preferred Stock		Common Stock			Additional	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Accumulated Deficit	Stockholders' Equity (Deficit)
Balance - June 30, 2002	--	$ --	9,054,456	$ 9,054	$ 12,042,088	$(11,307,652)	$ 743,490
Issuance of preferred stock, net of expenses	500,000	450,000	64,516	65	19,935	--	470,000
Cash received for share rounding	--	--	--	--	296	--	296
Issuance of common shares and options for note (Note 7)	--	--	400,000	400	99,600	--	100,000
Issuance of common shares to director	--	--	35,000	35	13,612	--	13,647
Dividends on preferred stock	--	--	--	--	--	(28,225)	(28,225)
Net income	--	--	--	--	--	401,407	401,407
Balance - June 30, 2003	500,000	450,000	9,553,972	9,554	12,175,531	(10,934,470)	1,700,615
Common stock repurchased in connection with the CST transaction (Note 7)	--	--	(800,000)	(800)	(247,200)	--	(248,000)
Issuance of warrants to purchase common stock in connection with the CST transaction (Note 7)	--	--	--	--	26,000	--	26,000
Dividends on preferred stock	--	--	--	--	--	(40,000)	(40,000)
Net loss	--	--	--	--	--	(2,878,638)	(2,878,638)
Balance - June 30, 2004	500,000	$ 450,000	8,753,972	$ 8,754	$ 11,954,331	$(13,853,108)	$ (1,440,023)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	For the Years Ended June 30,	
	2004	2003
Cash flows from operating activities		
Net income (loss)	$(2,878,638)	$ 401,407
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	55,898	134,587
Provision for doubtful accounts	210,149	129,342
Loss provision for sale of CST, net of cash	2,472,798	--
Loss provision for termination of Intandem Funding Agreement	494,149	--
Stock options issued for services	--	13,647
Changes in assets and liabilities		
Accounts receivable	(459,417)	(79,211)
Commissions receivable	139,932	54,007
Employee receivable	--	1,865
Inventory	9,358	11,059
Other current assets	5,901	(34,398)
Deposits and other assets	20,192	(14,713)
Accounts payable	79,502	76,777
Accrued liabilities	235,929	(57,054)
Commissions payable	(81,119)	(569,954)
Other current liabilities	(64,121)	45,724
Other liabilities	(12,575)	--
	3,106,576	(288,322)
Net cash provided by operating activities	227,938	113,085
Cash flows from investing activities		
Advances to Intandem	(241,397)	(172,752)
Payments received on notes receivable	80,000	--
Increase in notes receivable	(22,500)	--
Purchases of property and equipment	--	(47,188)
Other	5,955	--
Net cash used in investing activities	(177,942)	(219,940)
Cash flows from financing activities		
Principal payments on note payable	(50,000)	(25,000)
Increase in receivables financing arrangement/note payable	308,100	119,490

Payments on deferred commissions	(526,644)	(535,402)
Proceeds from the issuance of preferred stock	--	470,000
Other	19,167	8,042
Net cash provided by (used in) financing activities	(249,377)	37,130
Net decrease in cash	(199,381)	(69,725)
Cash - beginning of year	412,992	482,717
Cash - end of year	$ 213,611	$ 412,992

Supplemental disclosure of cash flow information:

Cash paid for interest was $46,849 and $25,514 for 2004 and 2003, respectively.

Supplemental disclosure of non-cash activity:

During the year ended June 30, 2004:

The Company issued 200,000 warrants to the principals of CST and received 800,000 shares of common stock in the Stock for Stock Exchange Agreement.

The Company accrued dividends on preferred stock totaling $40,000.

During the year ended June 30, 2003:

The Company issued 400,000 shares of common stock and 500,000 options to purchase common stock in exchange for an approximate 32% interest in AIC and a $300,000 Promissory Note and Agreement.

The Company issued 35,000 shares of common stock to a new independent director of the Company. These shares were valued at $13,647.

The Company accrued dividends on preferred stock totaling $28,225.

See notes to consolidated financial statements.

COGNIGEN NETWORKS, INC.

Notes to Consolidated Financial Statements

Note 1 - Description of Business and Summary of Significant Accounting Policies

Cognigen Networks, Inc. (the Company) was incorporated in May 1983 in the State of Colorado to engage in the cellular radio and broadcasting business and to engage in any other lawful activity permitted under Colorado law. In June 1988, the Company changed its name to Silverthorne Production Company (Silverthorne) and commenced operations in the oil and gas industry. These operations were discontinued in 1989. Between 1989 and 1999, Silverthorne attempted to locate acquisition prospects and negotiate an acquisition. Silverthorne's pursuit of an acquisition did not materialize until August 20, 1999, with the acquisition of the assets of Inter-American Telecommunications Holding Corporation (ITHC), which was accounted for as a reverse acquisition. The surviving entity changed its name to Cognigen Networks, Inc. on July 12, 2000. The Company is an Internet and relationship enabled marketer of long distance telephone and personal communications services. Revenue is generated in two ways. First, marketing commissions revenue is generated from a number of vendors who are represented on the Company's agent web sites and for whom the Company sells their products and services via contractual agreements. Second, telecommunications revenue is generated through sales of the Company's proprietary products and services through the Company's agent web sites.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Cognigen Networks, Inc. and its subsidiaries, Cognigen Switching Technologies, Inc. (CST) through January 31, 2004 and Intandem Communications Corp. (Intandem) since February 1, 2004 See Note 5 regarding information regarding the sale of CST and Note 7 for information on Intandem. All intercompany accounts and transactions have been eliminated in consolidation.

Cash

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. As of the balance sheet date, balances of cash and cash equivalents exceeded the federally insured limit by approximately $328,550.

Marketing Commissions Receivable

Marketing commissions receivable represent amounts due from outside vendors of telecommunication products and services used by subscribers. Typically outside vendors pay commissions due to the Company forty five to sixty days after the usage month-end.

An allowance for doubtful accounts of $154,357 at June 30, 2004 has been established by the Company to provide for potential uncollectible accounts and is deemed to be adequate by management based on historical results. The Company had marketing commissions revenue from three customers that generated 25% and 32% of total revenue for the years ended June 30, 2004 and 2003 respectively

Inventory

Inventory consists of prepaid calling cards held for resale and is stated at the lower of cost or market, determined using the first-in, first-out method (FIFO). Calling cards are purchased from a variety of vendors at a discount from the face value. Excise tax of 3% of the face value is paid at the time of purchase. When the calling cards are sold, the excise tax is collected and offset against the prepaid excise tax.

Property and Equipment

Property and equipment is stated at cost. Depreciation is provided utilizing the straight-line method over the estimated useful lives for owned assets, ranging from 3 to 7 years.

Goodwill

The excess of the purchase price over net assets acquired by the Company from unrelated third parties is recorded as goodwill. Goodwill resulted from the acquisition of CST. In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) Nos. 141 and 142, "Business Combinations" and "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under the guidance of SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair value base test. There was no goodwill recorded as of June 30, 2004 as it was written off in the transaction related to the sale of CST. See Note 7.

Valuation of Long-Lived Assets

The Company assesses valuation of long-lived assets in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of". The Company periodically evaluates the carrying value of long-lived assets to be held and used, including goodwill and other intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

Accounts Receivable

At the time the accounts receivable are originated, the Company considers a reserve for doubtful accounts based on the creditworthiness of the customer. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical performance that is tracked by the Company on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance. The allowance was $258,107 as of June 30, 2004.

Commissions Payable

Commissions payable represent amounts due to agents for commissions related to the usage for which the Company is due marketing commissions revenue from its outside vendors and commissions payable on sales of telecommunications revenue. It is the Company's policy to pay commissions to its agents only after receiving commissions due from its outside vendors. This policy results in approximately two months commission payable at any point in time. Commissions are paid on telecommunications revenue usually within one to two months of generating the telecommunications revenue.

Income Taxes

The Company recognizes deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Revenue Recognition

Marketing Commissions

Marketing commissions revenue from the sale of long-distance telephone, personal communication devices and marketing products is recognized at the time of sale.

Telecommunications

Telecommunications calling card and pin revenue is recorded when the calling cards and pins are shipped. The Company's policy is to delay shipment of calling cards and pins for a two-week period after receipt of cash to allow for processing. This delay results in deferred revenue, which is recorded as a liability until the calling cards are shipped. Calling card revenue includes amounts paid for the cost of the telecommunications services provided by third-party carriers.

Telecommunications long distance phone service revenue is recorded when services are rendered.

Telecommunications prepaid long distance phone service is initially recorded as deferred revenue and is recognized as the prepaid minutes are used by the customer.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basic Loss Per Share

The Company applies the provisions of SFAS No. 128, "Earnings Per Share". All dilutive potential common shares that have an anti-dilutive effect on diluted per share amounts have been excluded in determining net income (loss) per share. Shares issued in the initial capitalization of the Company have been treated as outstanding since inception.

Advertising Costs

The Company expenses advertising costs as incurred. Total advertising costs for the years ended June 30, 2004 and 2003 were $106,634 and $151,951, respectively.

Recently Issued Accounting Pronouncements

In December 2003, the FASB issued revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits". The revision requires additional annual disclosures related to information describing the types of plan assets, investment strategy, measurement dates, plan obligations and cash flows. The revision also required new quarterly disclosures detailing the components of net periodic benefit cost recognized during the interim period. The adoption of this Standard has not had a material effect on the Company's financial statements.

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The objective of this Issue is to provide guidance for identifying impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. The accounting provisions of EITF 03-1 are effective for all reporting periods beginning after June 15, 2004, while the disclosure requirements are effective only for annual periods ending after June 15, 2004. The Company has evaluated the impact of the adoption of EITF 03-1 and does not believe the impact will be significant to the Company's overall results of operations or financial position.

Reclassifications

Certain amounts in the 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation.

Note 2 - Basis of Presentation

On October 15, 2001, a one-for-eight (1:8) reverse stock split took place and has been reflected retroactively in these financial statements.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2004:

Furniture and fixtures	$ 10,286
Computer equipment	116,714
Equipment	15,266
Leasehold improvements	168,064
Software	136,284
	446,614
Less accumulated depreciation	(429,767)
	$ 16,847

Note 4 - Notes Receivable

American Communications , LLC

As of June 30, 2004, the Company had a recorded note receivable outstanding of $20,000 from American Communications, LLC (American Communications) in accordance with a $300,000 Promissory Note and Agreement due in October 2004. As of June 30, 2004, an allowance for doubtful accounts of $20,000 had been established on this balance due to the uncertainty of collection. This note bears interest at 12% payable annually, is secured by the personal guaranty of the principals of American Communications, and is in default. This note was acquired by the Company in October 2002 as part of the agreement dated October 17, 2002 with Stanford Venture Capital Holdings, Inc. described in more detail in Note 7 Stockholders' Equity.

Note 5 - Acquisition of Intandem

As of June 30, 2004, the Company had made advances of $454,149 to Intandem. On April 1, 2003, the Company and certain principals of Intandem entered into an agreement (Funding Agreement) pursuant to which the Company agreed to provide up to $448,093 in a series of loans to Intandem. Effective February 1, 2004, by mutual agreement of the principals of Intandem and the Company, the Funding Agreement was terminated and a separate agreement, the Termination of Funding Agreement and Settlement Agreement (Termination Agreement), was entered into.

The Termination Agreement provided that the Company would convert the notes receivable of $387,399 into 100% of the outstanding stock of Intandem in exchange for payments of $10,000 per month for eight months, assumption of up to approximately $45,000 in liabilities, cancellation of all employment contracts of the Intandem principals and cancellation of options to purchase common stock of the Company. As of the date of the Termination Agreement, $414,149 had been funded under the Funding Agreement and Termination Agreement. Due to questions of recoverability of this amount and the remaining commitments under the Termination Agreement, a provision of $494,149 has been taken in the statement of operations. This provision represents the $414,149 funding through the date of the Termination Agreement plus an estimate of remaining commitments under the Termination Agreement which approximated $80,000 at the time. Approximately $60,000 remain in accrued liabilities as of June 30, 2004 related to estimated futures expenses relating to the Termination Agreement.

In conjunction with the Funding Agreement, a consultant was to be paid, under his consulting agreement with the Company, a commission that was being negotiated with the Company. The commission amount had not yet been determined when questions of recoverability arose and a provision to write off funded amounts was included in the statement of operations. It is anticipated that the majority of any commission paid will be from future Intandem cash flows, if any, in a combination of cash and some common stock of the Company, but this can not be assured or estimated at this time.

Note 6 - Receivables Financing Arrangement

The balance of receivables financing arrangement as of June 30, 2004 is $308,100. This represents the amount of marketing commissions receivables that have been sold under an Accounts Receivable Purchase Agreement (Receivables Purchase Agreement) with a bank. The Receivables Purchase Agreement provides for up to $1,250,000 in marketing commissions receivable to be used as collateral for advances under the Receivables Purchase Agreement of which 65% of the marketing commissions receivable balances are available in cash advances to the Company. Interest charges are 1.3% per month on the marketing commissions receivable balances used as collateral. The bank was given a Security Agreement in the assets of the Company including any of the Company's copyrights, trademarks, patents and mask works as a condition to the Receivables Purchase Agreement. Facility, audit and due diligence fees were paid to the bank of $15,976. In addition, finder's fees were paid to a party who may be deemed to be a related party of $19,337. Both of these amounts are being amortized into interest expense over the term of the Receivables Purchase Agreement which is one year. After one year, the Receivables Purchase Agreement is from year to year unless terminated in writing by either party.

Note 7 - Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using the enacted tax rates in effect for the year in which the differences are expected to reverse. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that are not expected to be realized based on available evidence.

The Company's temporary differences result primarily from differing depreciation and amortization periods of certain assets, provision for doubtful accounts, net operating loss carryforwards and the recognition of certain expenses for financial statement purposes and not for tax purposes. The Company has approximately $3,700,000 of net operating loss carryforwards, which expire in varying amounts through 2024, if unused.

The net current and long-term deferred tax assets and liabilities in the accompanying balance sheet include the following:

Current deferred tax asset	$ 185,000
Current deferred tax liability	--
Valuation allowance	(185,000)
Net current deferred tax asset .	$ --
Long-term deferred tax asset	$ 1,397,000
Long-term deferred tax liability ..	--
Valuation allowance	(1,397,000)
Net long-term deferred tax asset	$ --

Temporary differences and carryforwards giving rise to a significant portion of deferred tax assets and liabilities are as follows at June 30, 2004:

Current	
Allowance for doubtful accounts	$ 185,000
Long-term	
Net operating loss carryforwards	1,389,000
Property and equipment	8,000
Less valuation allowance	(1,582,000)
	$ -

The provision for income taxes reflected in the consolidated statements of operations is zero, as such there are no separate components.

The following is a reconciliation of the statutory federal income tax rate applied to pre-tax accounting net loss compared to the income taxes in the consolidated statements of operations:

For the Years Ended
June 30,

	2004	2003
Income tax expense (benefit) at the statutory rate	$(1,073,739)	$ 134,478
State and local income taxes, net of federal income tax	(105,763)	13,246
Change in valuation allowance	1,202,000	(194,000)
Nondeductible expenses	2,727	8,717
Other timing differences, net	(25,225)	37,559
Deferred income tax benefit	$ --	$ --

Note 8 - Stockholders' Equity (Deficit)

Preferred Stock

As of June 30, 2004, the Company has authorized 20,000,000 shares of preferred stock. During fiscal 2003, the Company designated 500,000 shares as 8% Convertible Series A.

On October 17, 2002 the Company issued 500,000 shares of 8% Convertible Series A Preferred Stock (Preferred Stock) to Stanford Venture Capital Holdings, Inc. for $500,000. Each share of the 8% Convertible Series A Preferred Stock is convertible, at the option of the holder, into one share of the Company's common stock for a period of five years. After five years the Preferred Stock is automatically converted to common stock. The Preferred Stock does not have voting rights and has a liquidation preference of $1.00 per share. In conjunction with the issuance of the Preferred Stock, the Company paid $30,000 in cash and issued 64,516 shares of the Company's common stock valued at $20,000 to unaffiliated third-parties as a finders' fee.

Dividends on the Preferred Stock are cumulative at the rate of 8% per annum of the liquidation value, $1.00 per share, are payable in cash, when and if declared by the Board of Directors, and are preferential to any other junior securities, as defined. The Board has not declared any such dividends. Because of the cumulative nature of these dividends, the Company has accrued dividends as of June 30, 2004 of $68,225.

Common Stock

As part of the agreement dated October 17, 2002 discussed above, Stanford Financial Group Company, Inc. agreed to transfer to the Company, an approximate 32% interest in American Communications, a private company, and a $300,000 Promissory Note and Agreement due in October, 2004 in exchange for 400,000 shares of the Company's common stock, two-year warrants to purchase 150,000 shares of the Company's common stock at an exercise price of $.50 per share and five-year warrants to purchase 350,000 shares of the Company's common stock at an exercise price of $.75 per share. This transaction was completed on February 5, 2003 and the stock and warrants were issued.

On February 3, 2003, the Company entered into a letter of intent with David Stone and Harry Gorlovezky, members of American Communications, pursuant to which Messrs. Stone and Gorlovezky indicated their intent to acquire the approximate 32% interest in American Communications that the Company acquired from Standford Financial for a cash consideration of $22,500. In addition, Messrs. Stone and Gorlovezky had a right until June 10, 2003 to acquire the $300,000 Promissory Note and Agreement due in October 2004 for a price of $77,500 in cash. The $22,500 was received and the 32% interest in American Communications was delivered to Messrs. Stone and Gorlovezky. The option to acquire the $300,000 Promissory Note and Agreement for $77,500 was not exercised, however a subsequent agreement (Subsequent Agreement) was reached with American Communications and Mr. Stone to acquire the $300,000 Promissory Note and Agreement for $100,000 payable $20,000 per month through July of 2004. $80,000 of the $100,000 was received. Because of the remaining $20,000 was not received in accordance with the terms of the Subsequent Agreement, the $80,000 is to be applied to the principal and interest due under $300,000 Promissory Note and Agreement. As of June 30, 2004, the Company had a recorded note receivable outstanding of $20,000 in relation to the Promissory Note and Agreement. Also as of this date, an allowance for doubtful accounts of $20,000 had been established on this balance due to the uncertainty of collection.

In April 2003, 35,000 shares were issued to a new member of the Board of Directors of the Company. The shares were valued at $13,647, which approximates fair value, and are included in the 2003 operating results as stock-based compensation expense.

Stock for Stock Exchange Agreement

On May 12, 2004, after approval by the Board of Directors, the Company entered into a Stock for Stock Exchange Agreement with Jimmy L. Boswell, David G. Lucas, Reginald W. Einkauf and John D. Miller (collectively the Principals) pursuant to which the Principals agreed to exchange with the Company a total of 800,000 shares of the Company's common stock owned by the Principals for all of the outstanding common stock of the Company's wholly-owned subsidiary, CST, and warrants to purchase 200,000 shares of the Company's common stock effective February 1, 2004. The closing occurred on May 21, 2004. At the closing CST entered into a Master Services Agreement (MSA) to provide the Company with telecommunications rating, billing, provisioning, customer care, commissioning and database management for a fee. The MSA is effective February 1, 2004 and goes for one year periods unless terminated by either party at the end of each period with a 30 day notice.

As part of the closing, CST entered into a new note with a then existing lender representing approximately $223,000 in debt. All options to purchase common stock of the Company issued to CST employees were terminated except for the option to purchase 200,000 shares of the Company's common stock owned by Jimmy L. Boswell which option expired in August 2004 and was exercisable at $3.68 per share.

Jimmy L. Boswell is the President and a Director of CST. David G. Lucas is the former chief financial officer and a Director of CST. Reginald W. Einkauf and John D. Miller are former officers and Directors of CST. Mr. Boswell and Mr. Lucas are former officers and Directors of the Company. The Principals and another person sold all of the outstanding stock of CST to the Company for shares of the Company's common stock in April 2000.

In conjunction with the Stock for Stock Exchange Agreement, goodwill with a net book value of $2,893,029 has been written off. With consideration of approximately $26,000, calculated using the Black Scholes method of calculation for the 200,000 warrants, goodwill of $2,893,029 and $168,448 in negative equity that was assumed by the Principals, and the 800,000 shares of the Company's common stock that was repurchased from the Principals valued at $.31 per share, the Company recorded a loss of $2,502,583 on this transaction that is included in the statement of operations.

Stock Redemption Agreement

On November 21, 2001, the Company entered into a Stock Redemption Agreement with a shareholder, in which the shareholder agreed to sell to the Company 2,712,501 shares of the Company's common stock, at approximately $.77 per share, which approximated market value, in exchange for potential future commissions of $2,088,622 on certain customers, as defined in the agreement. The shares were purchased in December 2001. Deferred commissions payable will be paid out based upon future commissions earned as defined in the agreement. The agreement does not guarantee that future commissions will be earned. As of June 30, 2004, the remaining balance of deferred commissions payable was $748,546. The Company has classified $511,200 as an estimate of the current portion of this agreement based on historical commissions. Had the payments to the shareholder for the year ended June 30, 2004 of $526,644 been recorded as marketing commissions expense instead of a reduction of deferred commissions payable on the balance sheet, marketing commissions expense would have been higher by $526,644. We do not anticipate recording these payments as marketing commissions expense until sometime in 2006.

Stock Options

The Company has established the 2001 Incentive and Nonstatutory Stock Option Plan (the Plan), which authorizes the issuance of up to 625,000 shares of the Company's common stock. The Plan will remain in effect until 2011 unless terminated earlier by an action of the Board. All employees, board members and consultants of the Company are eligible to receive options under the Plan at the discretion of the Board. Options issued under the Plan vest according to the individual option agreement for each grantee.

During the year ended June 30, 2004, the Company granted to an employee, options to purchase 10,000 shares of common stock of the Company. These options vested 5,000 immediately and 5,000 in one year, were exercisable at $.39 per share and expired in five years. These options terminated during the year ended June 30, 2004.

In January 2004, the Board of Directors granted 200,000 options to an officer of the Company. These options vest 100,000 immediately and 25,000 each year for the ensuing four years, are exercisable at $.23 per share and expire in five years.

During the year ended June 30, 2004, a total of 606,000 options were cancelled, of which 450,000 were not issued under the Plan.

During the year ended June 30, 2003, the Board of Directors granted options to employees to purchase 281,000 shares of the Company's common stock that vest at varying times between immediately and three years, are exercisable at between $.36 to $.44 per share and expire five years from date of grant.

In April 2003, the Board of Directors granted options to purchase 25,000 shares of the Company's common stock to a shareholder of the Company for prior services rendered. These options vest immediately, are exercisable at $.40 per share, and expire five years from date of grant.

In April 2003, as part of the Funding Agreement with Intandem, the Board of Directors granted to the principals of Intandem options to purchase up to 450,000 shares of the Company's common stock. The exercise price of the options was $.36 per share and the options expired in five years. In conjunction with the Termination Agreement, these options were cancelled effective February 1, 2004.

In February 2003, the Board of Directors granted options to purchase 25,000 shares of the Company's common stock to a consultant of the Company for services rendered. These options vest over two year, are exercisable at $.48 per share, and expire five years from date of grant.

In December 2002, April 2003 and June 2003, the Board of Directors granted options to purchase a total of 85,000 shares of the Company's common stock to the four independent directors at that time of the Company as a partial fee for services rendered as independent directors. The options vested immediately, are exercisable at between $.38 and $.52 per share and expire in four to five years from date of grant.

The following table presents the activity for options outstanding:

	Stock Options	Weighted Average Exercise Price
Outstanding - June 30, 2002	1,080,000	$3.44
Granted	866,000	0.38
Forfeited/canceled	(50,000)	3.55
Exercised	--	--
Outstanding - June 30, 2003	1,896,000	2.12
Granted	210,000	0.39
Forfeited/canceled	(606,000)	0.37
Exercised	--	--
Outstanding - June 30, 2004	1,500,000	$2.57

The following table presents the composition of options outstanding and exercisable:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Price*	Life*	Number	Price*
$ 0.23 - .35	200,000	.23	4.5	100,000	.23
$ 0.36 - .39	150,000	.36	3.8	150,000	.36
$ 0.40 - .44	95,000	.42	3.43	95,000	.42
$ 0.45 - .52	55,000	.51	3.53	42,500	.51
$ 3.68	1,000,000	3.68	.17	1,000,000	3.68
Total - June 30, 2004	1,500,000	$2.57	1.44	1,387,500	$ 2.75

*Price and Life reflect the weighted average exercise price and weighted average remaining contractual life, respectively.

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's options been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's net loss and basic loss per common share would have been changed to the pro forma amounts indicated below:

For the Years Ended

	June 30, 2004	June 30, 2003
Net income (loss) - as reported	$(2,787,638)	$ 401,407
Net income (loss) - pro forma .	$(2,808,470)	$ 265,543

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used:

Approximate risk free rate	6.00%	6.00%
Average expected life	5 years	5 years
Dividend yield	0%	0%
Volatility	54%	35%
Estimated fair value of total options granted	$20,832	$135,864

<u>Warrants</u>

The following table presents the activity for warrants outstanding:

	Number of Warrants	Weighted Average Exercise Price
Outstanding - June 30, 2002	600,000	1.00
Issued	500,000	.67
Forfeited/canceled	-	-
Exercised	-	-
Outstanding - June 30, 2003	1,100,000	.85
Issued	200,000	.30
Forfeited/canceled	(100,000)	1.00
Exercised	-	-
Outstanding - June 30, 2004	1,200,000	$ .75

All of the outstanding warrants are exercisable and have a weighted average remaining contractual life of 3.02 years.

Note 9 - Commitments and Contingencies

Operating Leases

The Company leases office space under operating lease agreements. Rent expense for these leases for the years ended June 30, 2004 and 2003 was approximately $145,000 and $141,000, respectively.

Future minimum lease payments under these leases are approximately as follows:

Year Ending June 30,	
2005	$105,091
2006	64,856
2007	66,712
2008	7,413
	$244,072

COGNIGEN NETWORKS, INC.

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 8A. Controls and Procedures.

Under the supervision and with the participation of our management, including our chief executive officer and the principal accounting officer, we have evaluated the effectiveness of our disclosure controls and procedures as of a date within 90 days prior to the filing of this report. The have concluded that these disclosure controls provide reasonable assurance that we can collect, process and disclose, within the time periods specified in the Commission's rules and forms, the information required to be disclosed in its periodic Exchange Act reports.

There have been no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the date of their most recent evaluation.

In preparing our audit for the year ended June 30, 2004, our auditors identified potential deficiencies within our internal control framework which have the potential to result in a material control weakness. These potential control deficiencies relate to the manner in which we process transactions to record telecommunications revenue and related accounts receivable as our current processes and procedures require substantive manual intervention, estimation and reliance on several sources of information that are not integrated with our accounting system. We are currently analyzing these potential control deficiencies and the actions needed, if any, to address these potential deficiencies.

Item 8B. Other Information.

On April 13, 2004, we filed a Current Report on Form 8-K dated April 7, 2004, in which we described under Item 5 that Gary L. Cook had replaced David L. Jackson as our Secretary and that David L. Jackson was no longer a Vice President or an employee of ours.

On May 19, 2004, we filed a Current Report on Form 8-K dated may 18, 2004, that included a news release we issued on May 18, 2003, as an Exhibit under Item 7 and describing the news release under Item 12.

On June 3, 2004, we filed a Current Report on Form 8-K dated May 21, 2004, describing the Stock for Stock Exchange Agreement between us and the Principals of CST under Item 5 and filing the Stock for Stock Exchange Agreement as an Exhibit under Item 7.

PART III

The information required by Items 9 through 12 is incorporated by reference to our definitive proxy statement or definitive information statement that we plan to file in connection with our next Annual Meeting of Shareholders involving the election of directors. We plan to file the definitive proxy statement or definitive information statement with the Securities and Exchange Commission on or before October 28, 2003.

Item 13. Exhibit

Exhibits and Index of Exhibits.

EXHIBIT NO.	DESCRIPTION AND METHOD OF FILING
2.1	Funding Agreement dated April 1, 2003, by and among us, InTandem Communications Corp., David B. Hurwitz, Richard G. De Haven and Anthony Sgroi (except for Schedule B-Financial Model and Schedule E-Business Plan and Financial Statements) (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 15, 2003).
2.2	Stock for Stock Exchange Agreement dated May 12, 2004 by among Jimmy L. Boswell, David G. Lucas, Reginald W., Einkauf and John D. Miller (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on June 3, 2004).
3.1	Articles of Incorporation filed on May 6, 1983 (incorporated by reference to Exhibit 3.1 to our Annual Report on Form 10-KSB for the year ended June 30, 2000).
3.2	Articles of Amendment to our Articles of Incorporation filed on June 23, 1988 (incorporated by reference to Exhibit 3.2 to our Annual Report on Form 10-KSB for the year ended June 30, 2000).
3.3	Articles of Amendment to our Articles of Incorporation filed on July 12, 2000 (incorporated by reference to Exhibit 3.3 to our Annual Report on Form 10-KSB for the year ended June 30, 2000).
3.4	Articles of Amendment to our Articles of Incorporation filed on March 16, 2001 (incorporated by reference to our Quarterly Report on Form 10-QSB for the quarter ended March 31, 2001).
3.5	Articles of Amendment to our Articles of Incorporation filed on October 16, 2002 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on November 4, 2002).
3.6	Bylaws as amended through December 15, 2002 (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed on November 4, 2002).

10.1	Purchase Agreement among us, Stanford Financial Group Company, Inc. and Stanford Venture Capital Holdings, Inc. (incorporated by reference to Exhibit 10 to our Current Report on Form 8-K filed on November 4, 2002).
10.2	Letter dated December 6, 2002, from us to eMaxDirect, LLC (incorporated by reference to Exhibit 10 to our Current Report on Form 8-K filed on December 10, 2002).
10.3	Securities Purchase Agreement dated February 10, 2003, between us and David Stone and Harry Gorlovezsky (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 24, 2003).
10.4	Option to purchase Promissory Note and Agreement from us to David Stone and Harry Gorlovezsky (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on April 24, 2003).
10.5	Form of Option to Purchase Common Stock (incorporated by reference to Exhibit 10.7 to our Annual Report on Form 10-KSB for the year ended June 30, 2000).
10.6	2001 Incentive and Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 10 to our Quarterly Report on Form 10-QSB for the quarter ended March 31, 2001).
10.7	Stock Redemption Agreement dated November 30, 2001 between us, the Anderson Family Trust, Cantara Communications Corporation, Kevin E. Anderson Consulting, Inc. (without Exhibits A and B) (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated December 18, 2001).
10.8	Training Services Framework Agreement dated May 17, 2002, between us and e-Max Direct LLC (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated filed on July 2, 2002).
10.9	Transitional Supplemental Consulting Engagement letter dated July 11, 2002, between us and Kevin E. Anderson Consulting, Inc. (incorporated by reference to Exhibit 10.10 to our Annual Report Form 10-KSB for the year ended June 30, 2002).
10.10	Letter Agreement dated April 19, 2002, between Cognigen Networks, Inc. and Troy D. Carl (incorporated by reference to Exhibit 10.11 to our Annual report on Form 10-KSB for the year ended June 30, 2002).
10.11	Consulting Engagement Agreement dated September 9, 2002, by and between us and Combined Telecommunications Consultancy, Ltd and letter dated September 9, 2003 extending the Consulting Engagement Agreement (incorporated by reference to Exhibit 10.11 to our amended Annual Report Form 10-KSB/A for the year ended June 30, 2003.)
10.12	Modified Supplemental Consulting Engagement letter dated March 4, 2003 between us and Kevin Anderson (incorporated by reference to our amended Annual Report on Form 10-KSB/A for the year ended June 30, 2003).
10.13	Extension of Modified Supplemental Consulting Engagement Agreement dated February 9, 2004 between us and Kevin Anderson Consulting, Inc. (incorporated by reference to Exhibit 2.1 to our Quarterly Report on Form 10-QSB for the Quarter ended December 31, 2003).

10.14	Termination of Funding Agreement and Settlement Agreement dated February 5, 2004 (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-QSB for the Quarter ended December 31, 2003).
10.15	Amendment dated September 9, 2004, to Consulting Engagement Agreement between us and Combined Telecommunications Consultancy, Ltd.
10.16	Accounts Receivable Purchase Agreement dated December 26, 2003, between us and Silicon Valley Bank.
14.1	Code of Business Conduct and Ethics.
21	Subsidiaries
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a).
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a).
32.1	Certification of Chief Executive Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: September 23, 2004

COGNIGEN NETWORKS, INC.

/s/ Thomas S. Smith

Thomas S. Smith, President and Chief Executive Officer

/s/ Gary L. Cook

Gary L. Cook, Senior Vice President of Finance, Treasurer, Secretary, Chief Financial Officer and Principal Accounting Officer

In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Gary L. Cook Gary L. Cook	Director	September 23, 2004
/s/ David L. Jackson David L. Jackson	Director	September 23, 2004
/s/ Christopher R. Seelbach Christopher R. Seelbach	Director	September 23, 2004
/s/ James H. Shapiro James H. Shapiro	Director	September 23, 2004
/s/ Thomas S. Smith Thomas S. Smith	Director	September 23, 2004

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION AND METHOD OF FILING
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2.2	Stock for Stock Exchange Agreement dated May 12, 2004 by among Jimmy L. Boswell, David G. Lucas, Reginald W., Einkauf and John D. Miller (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on June 3, 2004).
3.1	Articles of Incorporation filed on May 6, 1983 (incorporated by reference to Exhibit 3.1 to our Annual Report on Form 10-KSB for the year ended June 30, 2000).
3.2	Articles of Amendment to our Articles of Incorporation filed on June 23, 1988 (incorporated by reference to Exhibit 3.2 to our Annual Report on Form 10-KSB for the

	year ended June 30, 2000).
3.3	Articles of Amendment to our Articles of Incorporation filed on July 12, 2000 (incorporated by reference to Exhibit 3.3 to our Annual Report on Form 10-KSB for the year ended June 30, 2000).
3.4	Articles of Amendment to our Articles of Incorporation filed on March 16, 2001 (incorporated by reference to our Quarterly Report on Form 10-QSB for the quarter ended March 31, 2001).
3.5	Articles of Amendment to our Articles of Incorporation filed on October 16, 2002 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on November 4, 2002).
3.6	Bylaws as amended through December 15, 2002 (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed on November 4, 2002).
10.1	Purchase Agreement among us, Stanford Financial Group Company, Inc. and Stanford Venture Capital Holdings, Inc. (incorporated by reference to Exhibit 10 to our Current Report on Form 8-K filed on November 4, 2002).
10.2	Letter dated December 6, 2002, from us to eMaxDirect, LLC (incorporated by reference to Exhibit 10 to our Current Report on Form 8-K filed on December 10, 2002).
10.3	Securities Purchase Agreement dated February 10, 2003, between us and David Stone and Harry Gorlovezsky (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 24, 2003).
10.4	Option to purchase Promissory Note and Agreement from us to David Stone and Harry Gorlovezsky (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on April 24, 2003).
10.7	Form of Option to Purchase Common Stock (incorporated by reference to Exhibit 10.7 to our Annual Report on Form 10-KSB for the year ended June 30, 2000).
10.8	2001 Incentive and Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 10 to ou Quarterly Report on Form 10-QSB for the quarter ended March 31, 2001).
10.7	Stock Redemption Agreement dated November 30, 2001 between us, the Anderson Family Trust, Cantara Communications Corporation, Kevin E. Anderson Consulting, Inc. (without Exhibits A and B) (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated December 18, 2001).
10.8	Training Services Framework Agreement dated May 17, 2002, between us and e-Max Direct LLC (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated filed on July 2, 2002).
10.9	Transitional Supplemental Consulting Engagement letter dated July 11, 2002, between us and Kevin E. Anderson Consulting, Inc. (incorporated by reference to Exhibit 10.10 to our

	Annual Report Form 10-KSB for the year ended June 30, 2002).
10.10	Letter Agreement dated April 19, 2002, between Cognigen Networks, Inc. and Troy D. Carl (incorporated by reference to Exhibit 10.11 to our Annual report on Form 10-KSB for the year ended June 30, 2002).
10.11	Consulting Engagement Agreement dated September 9, 2002, by and between us and Combined Telecommunications Consultancy, Ltd and letter dated September 9, 2003 extending the Consulting Engagement Agreement (incorporated by reference to Exhibit 10.11 to our amended Annual Report Form 10-KSB/A for the year ended June 30, 2003.)
10.12	Modified Supplemental Consulting Engagement letter dated March 4, 2003 between us and Kevin Anderson (incorporated by reference to our amended Annual Report on Form 10-KSB/A for the year ended June 30, 2003).
10.13	Extension of Modified Supplemental Consulting Engagement Agreement dated February 9, 2004 between us and Kevin Anderson Consulting, Inc. (incorporated by reference to Exhibit 2.1 to our Quarterly Report on Form 10-QSB for the Quarter ended December 31, 2003).
10.14	Termination of Funding Agreement and Settlement Agreement dated February 5, 2004 (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-QSB for the Quarter ended December 31, 2003).
10.15	Amendment dated September 9, 2004, to Consulting Engagement Agreement between us and Combined Telecommunications Consultancy, Ltd.
10.16	Accounts Receivable Purchase Agreement dated December 26, 2003, between us and Silicon Valley Bank.
14.1	Code of Business Conduct and Ethics.
21	Subsidiaries
31.3	Certification of Chief Executive Officer required by Rule 13a-14(a).
31.4	Certification of Chief Financial Officer required by Rule 13a-14(a).
32.1	Certification of Chief Executive Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.